

Per California Code of Regulations, title 2, section 548.5, the following information will be posted to CalHR's Career Executive Assignment Action Proposals website for 30 calendar days when departments propose new CEA concepts or major revisions to existing CEA concepts. Presence of the department-submitted CEA Action Proposal information on CalHR's website does not indicate CalHR support for the proposal.

A. GENERAL INFORMATION

1. Date

2021-08-31

2. Department

California Earthquake Authority

3. Organizational Placement (Division/Branch/Office Name)

Finance

4. CEA Position Title

Controller

5. Summary of proposed position description and how it relates to the program's mission or purpose.
(2-3 sentences)

The Controller will serve as a principle policy maker and will work directly with the CFO on program management matters. As a key member of the Finance Department management team, the Controller will be responsible for the highly sophisticated, technical, and complex accounting functions, including but not limited to investments, banking, budgets, fiscal control reconciliation, reporting and special assignments. The Controller provides financial expertise that significantly impacts the business operations of the CEA.

The Controller plays a key role as part of CEA's leadership team and the functions performed are directly related to the CEA's primary mission and directly impacts fiscal services associated with insurance, reinsurance, and contracts.

6. Reports to: (Class Title/Level)

Chief Financial Officer

7. Relationship with Department Director (Select one)

- ☐ Member of department's Executive Management Team, and has frequent contact with director on a wide range of department-wide issues.
- ☒ Not a member of department's Executive Management Team but has frequent contact with the Executive Management Team on policy issues.

(Explain):

8. Organizational Level (Select one)

- ☐ 1st ☐ 2nd ☒ 3rd ☐ 4th ☐ 5th (mega departments only - 17,001+ allocated positions)

B. SUMMARY OF REQUEST

9. What are the duties and responsibilities of the CEA position? Be specific and provide examples.

Under the general direction of the Chief Financial Officer (CFO), the Controller plans, organizes, directs, coordinates, and reviews the work of professional accounting staff and the entire fiscal activities of the California Earthquake Authority (CEA), the California Wildfire Fund (CWF), and the California Residential Mitigation Program (CRMP). As a key member of the management team, the Controller will maintain the CEA, CWF, and CRMP's general ledger accounts while being responsible for the highly sophisticated, technical, and complex accounting and investment functions including but not limited to budgets, fiscal control reconciliations, reporting, and special assignments. Specific duties will include the following:

ACCOUNTING

- Plans, organizes, controls, and directs the work activities of the Accounting Unit including the Accounting Administrator II, Financial Accountant II, Investment Officer II, and the additional members of the Accounting Unit. Delegates work assignments, establishes priorities, and reviews the work activities of professional and technical staff; sets goals and objectives and evaluate staff's performance.
- Supervises the completion and production of annual and other periodic financial reports for the CEA, CWF, and CRMP that are required from multiple state agencies, including the State Controller's Office (SCO), Department of Insurance (DOI), and the Legislature, in accordance with the Generally Accepted Accounting Principles (GAAP), Governmental Accounting Standards Board (GASB) Pronouncements, Statutory Accounting Principles (SAP) and related State law, rules and regulations.
- Develops new policies and procedures concerning fiscal matters. Implements changes to accounting's policies and procedures to accommodate changes in GAAP, SAP, GASB, and Single Audit requirements.
- Provide technical advice regarding complex accounting issues that require advanced expertise in accounting principles and practices to solve problems and guide decision making and planning.

Investments

- Coordinates the activities between approximately 20 external investment managers, the bank custodians, and CEA's investment consultant to assure proper reporting of CEA and CWF assets.
- Prepares or reviews short-term and long-term trends of the Treasury market to evaluate the overall investment strategy of the CEA and CWF.
- Tracks the CEA and CWF overall investment maturity schedules by external investment manager and type of investment fund. The CEA has approximately \$7.7 billion under investment and the CWF has approximately \$9.9 billion under investment.
- Participates in the Investment Compliance Committee to help oversee CEA and CWF's investment activities and guide investment strategies. A specific example includes:
 - o Proposed investment policy changes for the CEA will be brought to our Board in 2021 for approval. Based on the CEA's capital structure and market conditions that existed prior to the COVID-19 pandemic, the CEA evaluated the investment portfolio for opportunities. This involved taking advantage of market conditions while managing CEA's credit exposure, expanding its diversification, and earning additional income to minimize the impact on policy rates with an increase in duration and diversification while adhering to the underlying guidelines of Statute 16430. The CEA will assume responsibility for ongoing review and implementation of investment policies.

BUDGETS

- Reviews financial forecasts and projections to determine the need for future financing.
- Oversees and evaluates the monthly and annual budget process for the CEA, CWF, and CRMP and develops and implements any new policies as needed for process improvement(s).
- Coordinates and collaborates with CEA/CWF/CRMP departments on any budget related issues.
- Prepares budget information and materials for CEA, CWF, and CRMP Governing Board meetings.

BANKING

- Administers the CEA, CWF, and CRMP financing programs, including lines of credit with financial institutions, and other risk transfer vehicles, as well as ensuring adherence to all fiscal contractual obligations.
- Develop and assist in the automation and implementation of treasury related functions within the CEA, CWF, and CRMP.
- Oversees and maintains working relationships with the custodian and trustee banks.
- Participates in any debt issuance, pre-earthquake/wildfire or post-earthquake/wildfire banking by CEA and CWF.
- Develop new and improved existing treasury policies and procedures to maximize efficiency and structure of the finance unit. An example of a new policy:
 - o Total claims paying capacity of the Wildfire Fund is approximately \$21 billion. A component of the capacity is Wildfire Nonbypassable Charges ("NBCs") collected from IOU ratepayers in the annual amount of approximately \$902.4 million through January 1, 2036. The Department of Water Resources ("DWR") has been authorized to aggregate and collect NBCs from ratepayers starting in October 2020. CWF was initially capitalized with a short-term loan in the amount of \$2 billion from the California Treasurer's Surplus Money Investment Fund ("SMIF Loan") accruing interest at the rate of 2.35%. In December 2020, the CEA executed a SMIF Loan Repayment Agreement and amortization schedule. The Controller will oversee the Payment Account with one of its investment managers and bank to receive NBC funds and take reasonable steps to ensure that funds in the SMIF Payment Account are (a) segregated from the CWF general account from which eligible claims against the CWF are paid; and (b) are applied for the sole and exclusive purpose of holding funds allocated to the repayment of principal and interest on the SMIF Loan, until the SMIF Loan is paid in full.

B. SUMMARY OF REQUEST (continued)

10. How critical is the program's mission or purpose to the department's mission as a whole? Include a description of the degree to which the program is critical to the department's mission.

- ☒ Program is directly related to department's primary mission and is critical to achieving the department's goals.
- ☐ Program is indirectly related to department's primary mission.
- ☐ Program plays a supporting role in achieving department's mission (i.e., budget, personnel, other admin functions).

Description: The Controller will play a key role as part of CEA's leadership team and the functions performed are directly related to the CEA's primary mission and directly impacts fiscal services associated with insurance, reinsurance, and contracts. Below are examples of the degree to which the Finance program and the Controller is critical to CEA's mission:

- The Controller will play a critical role in influencing CEA policies and fiscal decisions including advising and providing recommendations to the CFO, executive management, and a variety of other stakeholders. The Controller will develop and maintain working relationships with the Department of Finance, Department of Water Resources, State Controller's Office, State Treasurers Office, and may testify before legislative committee meetings, as necessary. This position will be responsible for planning, directing, evaluating, and managing Finance programs and developing effective staff operations, determining strategies to meet the future needs of the CEA, CWF, and CRMP. This position also provides expert fiscal management consultation and technical advice to the CFO and executive management and develops and recommends company-wide policies to achieve the CEA's strategic goals.
- The Controller will be essential in developing and implementing sufficient internal controls to support the CEA's Enterprise Risk Management (ERM) program and ensuring CEA's financial compliance with multiple financial accounting and reporting principles and related State rules and regulations. Consequence of error for this position is high and has become even more significant with the additional roles and responsibilities of administering the CWF. This position is directly responsible for the development of the Authority's Governmental Accounting Standards Board (GASB) and Statutory Financial Statements, where mistakes could potentially lead to a significant negative impact on the Authority's reputation, the financial ratings for the Authority's bond issuances, and/or ability to receive a clean audit opinion(s).

B. SUMMARY OF REQUEST (continued)

11. Describe what has changed that makes this request necessary. Explain how the change justifies the current request. Be specific and provide examples.

In July 2019, Governor Newsom signed into law AB 1054 & AB 111, known as the "2019 Wildfire Legislation". AB 1054 was subsequently amended by AB 1513. The 2019 Wildfire Legislation, which took immediate effect upon the Governor's signature, established the \$21 billion dollar California Wildfire Fund (CWF). The purpose of the CWF is to provide a source of money to pay or reimburse eligible claims arising from a covered wildfire caused by a utility company which participates in the CWF by assisting in capitalizing the CWF, and undertaking certain other obligations specified in the law.

The Council was charged with appointing an "Administrator" for the CWF. The legislation provides for the CEA to act as the Interim Administrator of the CWF. On April 23, 2020, the Council named the CEA the permanent administrator of the CWF.

Because the CEA is now obligated to administer two separate and segregated funds – the Earthquake Authority Fund and the Wildfire Fund, and it is using its operating assets and employees for the benefit of both funds, CEA and its accounting staff were required to develop and implement a cost allocation methodology to ensure that each of the funds bear their own expenses. The CEA developed a methodology and systems to accomplish a fair and reasonable allocation of expenses between the two funds and the CFO submitted the methodology and systems to the Governing Board for approval in 2020. The Controller will be responsible for overseeing the systems and ensuring the proper administration of the two segregated funds.

Specifically, a time entry system was developed and implemented to collect the time of approximately 30 CEA employees who allocate a portion of their time each month toward the CWF. Salaries and wages are charged directly to the fund for which work has been done. Costs that benefit more than one fund are allocated to each fund based on the ratio of each company's salaries/benefits to the total of such salaries/benefits. The Controller will be required to continually review the cost allocation and determine if any changes need to be made to the system and it will also require ongoing policy review and implementation as CEA assesses its ongoing future needs.

Thus, the first order of business for the CEA was to establish immediately an administrative infrastructure to receive and invest the initial \$2 billion in Wildfire Fund capital. The Controller and other members of the finance staff under the supervision of the Controller will be responsible for ensuring the following:

- Safeguard the Assets of the CWF

- o Develop investment policies to document the investment plan and provide guidance for consistent, informed decision-making.
- o From inception through June 2021, the CWF has received approximately \$10.0 billion in contributions from the 3 investor-owned utility companies. The Controller will ensure the administrative infrastructure is maintained to oversee these contributions.
- o Ensure the custody accounts with US Bank for each of the investment managers along with a DDA account for the operating expenses of the CWF are managed correctly.
- o Ensure the adequacy of Financial Controls

- Integrated Financial and Management Accounting

- o Develop accounting policies, procedures, and forecasting systems to ensure consistency with CEA's policies.
- o Close CWF financials on a monthly basis
- o Determine the fund type and the reporting requirements of the CWF.

- Continually assess progress and post-integration analysis.

- o The Controller will continue to meet with executive management monthly to discuss the progress of the fund and the timeline of planned goals.

CRMP is a joint exercise of powers agreement between the Governor's Office of Emergency Services (Cal OES) and the CEA. Funding for the CRMP is provided by voluntary advances, contributions, or grants. CRMP was awarded \$23 million in federal grant awards during 2019 and is required to have its first Single Audit related to fiscal year 2020 that will be performed in 2021. The Controller will be fully responsible for analyzing and evaluating the financial and accounting records of the CRMP, conducting the risk assessment on internal controls, and preparing the documentation and procedures in order to ensure the CRMP is in compliance with Single Audit requirements.

C. ROLE IN POLICY INFLUENCE

12. Provide 3-5 specific examples of policy areas over which the CEA position will be the principle policy maker. Each example should cite a policy that would have an identifiable impact. Include a description of the statewide impact of the assigned program.

1. Allowance for Doubtful Accounts Policies & Procedures

The CEA has 24 participating insurers, (PI's) who are responsible for premium receivables, which requires they pay the amount of premiums collected on behalf of CEA's policyholders. This process is complex and are carried at a net amount determined by the amounts collected by each PI for written policies, less an estimate made for an allowance for uncollectible accounts. The Controller will regularly review data about these written policies in evaluating the sufficiency of the allowance for uncollectible accounts and will be tasked with updating these policies as necessary. The Controller will be tasked with identifying policy objectives to address and resolve past due balances owed from each of the PI's. The new policy objectives will be approved by the CFO and General Legal Council.

2. GASB 68 & GASB 75 Policies & Procedures

All CEA civil-service employees participate in the California Public Employees' Retirement System (CalPERS), which is included in the State of California's Comprehensive Annual Financial Report as a fiduciary component unit. The portion of the present value of projected benefit payments to be provided to civil-service employees attributable to past periods of service less CEA's fiduciary net position is recorded as a liability. The CEA implemented GASB 68 (Accounting and Financial Reporting for Pensions) and GASB 75 (Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions) in fiscal year 2018. The Controller will be in-charge of accumulating all relevant information and computing the applicable expenses/liabilities of the CEA and disclosing all relevant information in the CEA's audited financial statements. The Controller will develop formal policies and timelines to accumulate all relevant material from the SCO and CalPERS, and processes for the accounting staff to creating applicable year-end journal entries and the information to be used in financial reports and communications with outside parties.

3. Capital Structure of the CWF

One of the duties of being the administrator of the CWF is to determine the appropriate capital structure of the CWF to maximize the durability and claims paying resource of the fund. This could include issuing debt secured by future flows into the fund, buying insurance, reinsurance, or other risk transfer vehicles, or taking other actions to maximize the claims paying resources of the fund. As of June 2021, there has been no debt issuance and there are no current reinsurance contracts that are in effect. This will change in the future and the Controller will play a substantial and important role in developing and implementing all new policies for the CWF.

4. Financial Reporting and Systems Functions

Interpret and determine the application of new accounting rules to make sure the CEA/CWF/CRMP are in compliance with the most current accounting principles and practices to make sure all financial statements are correct, precise and filed timely. Develop new or revise existing policies, should current business practices not be compliant. The Controller will be required to keep up to date with accounting principles (Financial Accounting Standards Board (FASB), Governmental Accounting Standards Board (GASB), and Statutory Accounting Practices (SAP)) and is the single point person for interpretations on how those would apply to the CEA/CWF/CRMP

C. ROLE IN POLICY INFLUENCE (continued)

13. What is the CEA position's scope and nature of decision-making authority?

Under the direction of the CFO, the Controller will be a key fiscal advisor to Executive Management and will be responsible for the overall administration of the Accounting and Budget branches of the CEA. To fulfill CEA's role in the earthquake insurance market, CEA must be financially independent and strong. The oversight on accurately reporting the company's financial information is critical to maintain its financial health. The Controller will be responsible for ensuring all financial statements are correct and precise and filed timely with regulatory agencies, as well as managing financial reporting systems and processing and monitoring the internal controls to ensure the business is operating effectively. The Controller will have sole responsibility to ensure the accuracy of all financial reporting for the Executive Management team who relies on this information to make critical decisions that impact the CEA as well as external stakeholders.

The Controller will have the sole responsibility for coordinating with the external auditors and to ensure the company is in compliance with current accounting principles and practices. This CEA position will make decisions regarding system configurations and corresponding internal controls for implementation and to assess the effectiveness of the CEA's internal controls, and make necessary changes and improvements as deemed necessary. Internal controls are process designed to help safeguard an organization and minimize risk to its objectives, Internal controls minimize risks and protect assets, ensure accuracy of records, promote operational efficiency, and encourage adherence to policies, rules, regulations, and laws.

14. Will the CEA position be developing and implementing new policy, or interpreting and implementing existing policy? How?

The Controller will serve as a principle policy maker and will work directly with the CFO on program management, policy development, interpretation, and implementation of policy matters that impact the CEA in regards to the CWF, and the CRMP. This position will also play an integral role in advising the CFO and making recommendations regarding policy matters that impact the CEA as a whole, as well as providing guidance and leadership to high level and executive leadership.